

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF STERLING	County ARENAC
Audit Date 03/31/2004	Opinion Date 09/17/2004	Date Accountant Report Submitted to State: 09/30/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

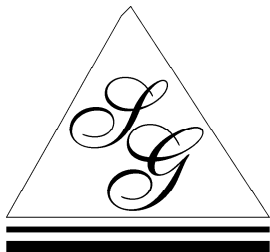
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.09.12 09:28:29 -0500 Reason: I am approving this document	



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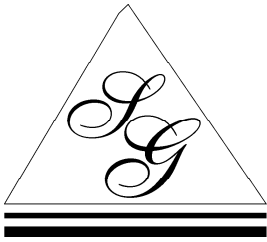
Herman A Bertuleit, CPA

VILLAGE OF STERLING
ARENAC COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2004

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Herman A Bertuleit, CPA

September 17, 2004

Independent Auditors' Report

Members of the Village Council
Village of Sterling
Arenac County, Michigan

We have audited the accompanying general purpose financial statements of the Village of Sterling, Arenac County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the combined general purpose financial statements referred to above do not include the financial statements of the General Fixed Assets Group of Accounts, which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Assets Group of Accounts is not known.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Village of Sterling, Arenac County, Michigan, as of March 31, 2004, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004 on our consideration of the Village of Sterling's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

VILLAGE OF STERLING
Arenac County, Michigan

COMBINED BALANCE SHEET -
 ALL FUND TYPES
 March 31, 2004
With Comparative Totals for March 31, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>ASSETS</u>					
Cash (Note 3)	\$ 3,526	\$ 9,947	\$ 29,000	\$ 42,473	\$ 56,804
Certificates of deposit (Note 3)	81,119	88,762	122,012	291,893	319,121
Investments (Note 3)	73,953	82,080	252,648	408,681	299,172
Receivables:					
Taxes (Note 4)	5,358	0	4,057	9,415	9,908
Assessments	0	0	582	582	3,084
Accounts	0	0	12,748	12,748	10,262
Due from state	0	13,569	0	13,569	49,961
Due from other funds (Note 6)	0	26,644	105,257	131,901	152,470
Property, plant and equipment (Note 7)	0	0	1,374,415	1,374,415	1,368,129
Accumulated depreciation (Note 7)	0	0	(657,588)	(657,588)	(630,051)
Total Assets	<u>\$ 163,956</u>	<u>\$ 221,002</u>	<u>\$ 1,243,131</u>	<u>\$ 1,628,089</u>	<u>\$ 1,638,860</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accrued liabilities	\$ 1,509	\$ 0	\$ 0	\$ 1,509	\$ 1,760
Due to other funds (Note 6)	31,901	100,000	0	131,901	152,470
Total liabilities	<u>33,410</u>	<u>100,000</u>	<u>0</u>	<u>133,410</u>	<u>154,230</u>
<u>Fund Equity</u>					
Contributed capital	0	0	1,235,290	1,235,290	1,234,290
Retained Earnings:					
Unreserved	0	0	7,841	7,841	11,204
Fund Balances:					
Unreserved:					
Undesignated	130,546	121,002	0	251,548	239,136
Total fund equity	<u>130,546</u>	<u>121,002</u>	<u>1,243,131</u>	<u>1,494,679</u>	<u>1,484,630</u>
Total Liabilities and Fund Equity	<u>\$ 163,956</u>	<u>\$ 221,002</u>	<u>\$ 1,243,131</u>	<u>\$ 1,628,089</u>	<u>\$ 1,638,860</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

For the Year Ended March 31, 2004

With Comparative Totals for the Year Ended March 31, 2003

	Governmental Fund Types		Totals (Memorandum Only)	
	General	Special Revenue	March 31, 2004	March 31, 2003
<u>Revenue</u>				
Taxes	\$ 33,440	\$ 0	\$ 33,440	\$ 31,284
Federal grants	0	0	0	242,311
State revenue	46,175	70,022	116,197	234,039
Charges for services	27,690	0	27,690	20,475
Interest and rentals	3,467	3,232	6,699	10,539
Other	0	0	0	278
Total revenue	<u>110,772</u>	<u>73,254</u>	<u>184,026</u>	<u>538,926</u>
<u>Expenditures</u>				
General government:				
Village council	19,792	0	19,792	8,381
President	960	0	960	1,138
Elections	952	0	952	300
Assessor	650	0	650	460
Clerk	8,737	0	8,737	5,920
Treasurer	6,333	0	6,333	6,084
Planning and zoning	400	0	400	0
Village hall	10,239	0	10,239	3,552
Public works:				
Highways and streets	25,999	48,616	74,615	574,840
Street lighting	8,160	0	8,160	7,352
Recreation and cultural:				
Parks and recreation	465	0	465	2,523
Other functions:				
Insurance	13,903	0	13,903	12,085
Employee benefits	5,476	0	5,476	3,787
Capital outlay	20,932	0	20,932	2,345
Total expenditures	<u>122,998</u>	<u>48,616</u>	<u>171,614</u>	<u>628,767</u>
Excess of revenue over (under) expenditures	<u>(12,226)</u>	<u>24,638</u>	<u>12,412</u>	<u>(89,841)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	46,188	46,188	13,294
Operating transfers out	<u>(13,376)</u>	<u>(32,812)</u>	<u>(46,188)</u>	<u>(13,294)</u>
Total other financing sources (uses)	<u>(13,376)</u>	<u>13,376</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(25,602)</u>	<u>38,014</u>	<u>12,412</u>	<u>(89,841)</u>
Fund balances - beginning of year	<u>156,148</u>	<u>82,988</u>	<u>239,136</u>	<u>328,977</u>
Fund balances - end of year	<u>\$ 130,546</u>	<u>\$ 121,002</u>	<u>\$ 251,548</u>	<u>\$ 239,136</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended March 31, 2004

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>									
Taxes	\$ 31,450	\$ 33,440	\$ 1,990	\$ 0	\$ 0	\$ 0	\$ 31,450	\$ 33,440	\$ 1,990
State revenue	45,000	46,175	1,175	59,700	70,022	10,322	104,700	116,197	11,497
Charges for services	21,000	27,690	6,690	0	0	0	21,000	27,690	6,690
Interest and rentals	4,000	3,467	(533)	5,500	3,232	(2,268)	9,500	6,699	(2,801)
Other	25,000	0	(25,000)	0	0	0	25,000	0	(25,000)
Total revenue	126,450	110,772	(15,678)	65,200	73,254	8,054	191,650	184,026	(7,624)
<u>Expenditures</u>									
General government:									
Village council	17,000	19,792	(2,792)	0	0	0	17,000	19,792	(2,792)
President	2,000	960	1,040	0	0	0	2,000	960	1,040
Elections	1,000	952	48	0	0	0	1,000	952	48
Assessor	600	650	(50)	0	0	0	600	650	(50)
Clerk	7,200	8,737	(1,537)	0	0	0	7,200	8,737	(1,537)
Treasurer	6,800	6,333	467	0	0	0	6,800	6,333	467
Planning and zoning	3,600	400	3,200	0	0	0	3,600	400	3,200
Village hall	11,100	10,239	861	0	0	0	11,100	10,239	861
Public safety:									
Liquor law enforcement	0	0	0	1,289	0	1,289	1,289	0	1,289
Public works:									
Highways and streets	56,800	25,999	30,801	64,900	48,616	16,284	121,700	74,615	47,085
Street lighting	9,000	8,160	840	0	0	0	9,000	8,160	840
Recreation and cultural:									
Parks and recreation	7,600	465	7,135	0	0	0	7,600	465	7,135
Other functions:									
Insurance	5,400	13,903	(8,503)	0	0	0	5,400	13,903	(8,503)
Employee benefits	4,700	5,476	(776)	0	0	0	4,700	5,476	(776)
Capital outlay	28,700	20,932	7,768	0	0	0	28,700	20,932	7,768
Total expenditures	161,500	122,998	38,502	66,189	48,616	17,573	227,689	171,614	56,075
Excess of revenue over (under) expenditures	(35,050)	(12,226)	22,824	(989)	24,638	25,627	(36,039)	12,412	48,451
<u>Other Financing Sources (Uses)</u>									
Operating transfers in	0	0	0	0	46,188	46,188	0	46,188	46,188
Operating transfers out	(12,500)	(13,376)	(876)	0	(32,812)	(32,812)	(12,500)	(46,188)	(33,688)
Total other financing sources (uses)	(12,500)	(13,376)	(876)	0	13,376	13,376	(12,500)	0	12,500
Excess of revenue and other sources over (under) expenditures and other uses	(47,550)	(25,602)	21,948	(989)	38,014	39,003	(48,539)	12,412	60,951
Fund balances - beginning of year	156,148	156,148	0	82,988	82,988	0	239,136	239,136	0
Fund balances - end of year	\$ 108,598	\$ 130,546	\$ 21,948	\$ 81,999	\$ 121,002	\$ 39,003	\$ 190,597	\$ 251,548	\$ 60,951

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
 RETAINED EARNINGS - PROPRIETARY FUND TYPES - SEWER FUND
 For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	Totals	
	March 31, 2004	March 31, 2003
<u>Operating Revenue</u>		
Charges for services	\$ 41,885	\$ 46,035
<u>Operating Expenses</u>		
Wages	6,385	8,772
Supplies	634	3,256
Laboratory fees	1,420	1,560
Maintenance and repair	5,701	1,617
Depreciation	27,537	27,397
Equipment rental	4,914	5,503
Utilities	3,037	3,369
Miscellaneous	732	887
Total operating expenses	50,360	52,361
Operating loss	(8,475)	(6,326)
<u>Non-Operating Revenue</u>		
Interest income on investments	4,779	14,575
Interest income on special assessments	333	453
Total non-operating revenue	5,112	15,028
Net income (loss)	(3,363)	8,702
Retained earnings - beginning of year	11,204	2,502
Retained earnings - end of year	\$ 7,841	\$ 11,204

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND TYPES - SEWER FUND
 For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	Totals	
	March 31, 2004	March 31, 2003
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 40,575	\$ 41,319
Cash payments to suppliers and employees	(22,823)	(25,114)
Net cash provided by operating activities (Note 13)	<u>17,752</u>	<u>16,205</u>
<u>Cash Flows From Noncapital Financing Activities</u>		
Special assessments received	2,502	8,805
Interest received on assessments	333	453
Cash paid to other funds	(6,789)	(63,839)
Net cash used by noncapital financing activities	<u>(3,954)</u>	<u>(54,581)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Acquisition and construction of capital assets	(6,286)	(3,800)
Cash received for connections	1,000	1,000
Net cash used by capital and related financing activities	<u>(5,286)</u>	<u>(2,800)</u>
<u>Cash Flows From Investing Activities</u>		
Proceeds received from sale of investments	35,035	172,253
Interest received on investments	1,483	5,908
Net cash provided by investing activities	<u>36,518</u>	<u>178,161</u>
Net increase in cash and cash equivalents	45,030	136,985
Cash and cash equivalents at beginning of year	<u>236,618</u>	<u>99,633</u>
Cash and cash equivalents at end of year	<u>\$ 281,648</u>	<u>\$ 236,618</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Sterling operates under an elected council of nine members and provides services to its residents in many areas. The financial statements of the Village of Sterling have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Village exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The financial activities of the Village of Sterling are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Proprietary Funds:

Enterprise Fund - This fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriated for capital maintenance, public policy, management control or other purposes.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Village, available means expected to be received within 60 days of the fiscal year-end.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Nonexchange transactions, in which the Village receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Village must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Village on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The accrual basis of accounting is used by the Enterprise Fund. All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. The Village uses 60 days from the end of the fiscal year to measure availability.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the Village was \$6,688,086. The tax rates were 3.0000 for operations and 2.0000 for roads.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

E. Budgets and Budgetary Accounting

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Village President submits to the Village Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Continued)

All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village Council.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council.

F. Assets, Liabilities and Fund Equity

Interfund receivables and payables - Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A). Operating transfers in and out have not been offset in the preparation of the Combined Statement of Revenue, Expenditures and Changes in Fund Balances (EXHIBITS B and C).

Fixed Assets and Depreciation:

Enterprise Fund – Property, plant and equipment is stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Contributed Capital - Contributed capital consists of federal grants, state grants and contributions from customers (special assessments and contract proceeds) utilized in the construction of fixed assets. Contributed capital is not being amortized.

G. Revenue, Expenditures and Expenses

1. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period. The Village uses 60 days from the end of the fiscal year to measure availability.
2. Revenue from the sale of Village services and assessments is recorded when billed. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.

H. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments and certificates of deposit with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 2 - FUND OMITTED

The Village of Sterling does not maintain records for the General Fixed Assets. Therefore, this fund has not been included in the financial statements.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit and investment accounts are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash	\$ 42,473	\$ 0	\$ 42,473
Certificates of deposit	291,893	0	291,893
Investments	<u>0</u>	<u>408,681</u>	<u>408,681</u>
	<u>\$ 334,366</u>	<u>\$ 408,681</u>	<u>\$ 743,047</u>

Deposits:

Deposits are carried at cost. Deposits of the Village are held at various financial institutions in the name of the Village. At March 31, 2004, the carrying amounts of the Village's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 286,008	\$ 287,535
Uninsured - uncollateralized	<u>48,358</u>	<u>48,358</u>
	<u>\$ 334,366</u>	<u>\$ 335,893</u>

Investments:

The Village Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Village to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Village's deposits and investments are in accordance with statutory authority.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at March 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at March 31, 2004 consisted of the following which are not required to be categorized.

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
Financial institution pooled funds	<u>\$ 408,681</u>	<u>\$ 408,681</u>

NOTE 4 - PROPERTY TAXES RECEIVABLE

The delinquent real property taxes of the Village of Sterling are purchased by the County of Arenac. The County intends to sell tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

NOTE 5 - UNEMPLOYMENT COMPENSATION

The Village is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Village must reimburse the Employment Agency for all benefits charged against the Village. No liabilities have been incurred as of March 31, 2004.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Major Street Fund	\$ 11,571	General Fund	\$ 11,571
Local Street Fund	15,073	General Fund	15,073
Sewer Fund	5,257	General Fund	5,257
Sewer Fund	<u>100,000</u>	Major Street Fund	<u>100,000</u>
	<u>\$ 131,901</u>		<u>\$ 131,901</u>

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 7 - PROPRIETARY FUNDS – FIXED ASSETS

A summary of proprietary fund type fixed assets at March 31, 2004 follows:

	<u>Sewer Fund</u>
Land and improvements	\$ 5,408
Machinery and equipment	<u>1,369,007</u>
	1,374,415
Less: accumulated depreciation	<u>(657,588)</u>
Net Fixed Assets	<u>\$ 716,827</u>

Machinery and equipment are depreciated using the straight-line basis at rates ranging from 2% to 10% per year.

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
General Government:			
Village council	\$ 17,000	\$ 19,792	\$ 2,792
Assessor	\$ 600	\$ 650	\$ 50
Clerk	\$ 7,200	\$ 8,737	\$ 1,537
Other Functions:			
Insurance	\$ 5,400	\$ 13,903	\$ 8,503
Employee benefits	\$ 4,700	\$ 5,476	\$ 776
Operating transfers out	\$ 12,500	\$ 13,376	\$ 876
Special Revenue Funds:			
Operating transfers out	\$ 0	\$ 32,812	\$ 32,812

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 9 - COMPENSATED ABSENCES

The Village of Sterling had no liability for compensated absences at March 31, 2004.

NOTE 10 - SEGMENT INFORMATION OF ENTERPRISE FUND

The Village operates one enterprise fund which provides sewer services. Segment information for the year ended March 31, 2004 is as follows:

Operating revenue	\$ 41,885
Depreciation expense	\$ 27,537
Operating loss	\$ (8,475)
Net loss	\$ (3,363)
Net working capital	\$ 425,722
Total equity	\$ 1,243,131

NOTE 11 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of the insurance coverage in any of the past three years.

NOTE 12 - OPERATING TRANSFERS

Operating transfers in/out to other funds consist of the following:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Major Street Fund	\$ 13,376	General Fund	\$ 13,376
Major Street Fund	<u>32,812</u>	Local Street Fund	<u>32,812</u>
	<u>\$ 46,188</u>		<u>\$ 46,188</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget allows to expend them.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 13 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (8,475)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	27,537
Changes in assets:	
Increase in accounts receivable	<u>(1,310)</u>
Net cash provided by operating activities	<u>\$ 17,752</u>

NOTE 14 - TOTAL COLUMN ON COMBINED STATEMENTS

The total column on the combined statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 15 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Village is required to implement this standard for the fiscal year ending March 31, 2005. The Village has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

OTHER DATA

REPORT ON OTHER DATA

September 17, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, EXHIBITS G through H, including comparative totals for 2003, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the Village of Sterling. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

Stephenson, Grailh & Co., P.C.

VILLAGE OF STERLING
Arenac County, Michigan

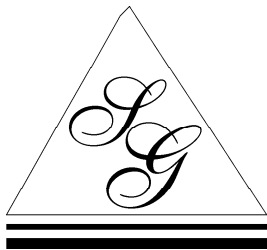
ALL SPECIAL REVENUE FUNDS -
 COMBINING BALANCE SHEET
 March 31, 2004
With Comparative Totals for March 31, 2003

				<u>Totals</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Liquor Law Enforcement Fund</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>ASSETS</u>					
Cash	\$ 4,329	\$ 4,329	\$ 1,289	\$ 9,947	\$ 17,928
Certificates of deposit	37,049	51,713	0	88,762	86,767
Investments	73,462	8,618	0	82,080	14,639
Receivables:					
Taxes	0	0	0	0	1,870
Due from state	10,655	2,914	0	13,569	49,961
Due from other funds	11,571	15,073	0	26,644	40,264
Total Assets	<u>\$ 137,066</u>	<u>\$ 82,647</u>	<u>\$ 1,289</u>	<u>\$ 221,002</u>	<u>\$ 211,429</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Due to other funds	\$ 100,000	\$ 0	\$ 0	\$ 100,000	\$ 128,441
<u>Fund Equity</u>					
Fund Balances:					
Unreserved:					
Undesignated	37,066	82,647	1,289	121,002	82,988
Total Liabilities and Fund Equity	<u>\$ 137,066</u>	<u>\$ 82,647</u>	<u>\$ 1,289</u>	<u>\$ 221,002</u>	<u>\$ 211,429</u>

VILLAGE OF STERLING
Arenac County, Michigan

ALL SPECIAL REVENUE FUNDS -
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

				<u>Totals</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Liquor Law Enforcement Fund</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>Revenue</u>					
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,624
Federal grants	0	0	0	0	242,311
State revenue	55,055	14,967	0	70,022	182,806
Interest	1,643	1,589	0	3,232	5,095
Total revenue	<u>56,698</u>	<u>16,556</u>	<u>0</u>	<u>73,254</u>	<u>442,836</u>
<u>Expenditures</u>					
Public works	<u>33,008</u>	<u>15,608</u>	<u>0</u>	<u>48,616</u>	<u>548,398</u>
Excess of revenue over (under) expenditures	<u>23,690</u>	<u>948</u>	<u>0</u>	<u>24,638</u>	<u>(105,562)</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	46,188	0	0	46,188	13,294
Operating transfers out	0	(32,812)	0	(32,812)	0
Total other financing sources (uses)	<u>46,188</u>	<u>(32,812)</u>	<u>0</u>	<u>13,376</u>	<u>13,294</u>
Excess of revenue and other sources over (under) expenditures and other uses	69,878	(31,864)	0	38,014	(92,268)
Fund balances (deficit) - beginning of year	<u>(32,812)</u>	<u>114,511</u>	<u>1,289</u>	<u>82,988</u>	<u>175,256</u>
Fund balances - end of year	<u>\$ 37,066</u>	<u>\$ 82,647</u>	<u>\$ 1,289</u>	<u>\$ 121,002</u>	<u>\$ 82,988</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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James J Gracik, CPA
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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 17, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Village Council
Village of Sterling
Arenac County, Michigan

We have audited the general purpose financial statements of the Village of Sterling, as of and for the year ended March 31, 2004, and have issued our report thereon dated September 17, 2004. In our report dated September 17, 2004, our opinion was qualified because the general purpose financial statements do not include the general fixed assets group of accounts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Sterling's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Village of Sterling in a separate letter dated September 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Sterling's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Sterling's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Cash Receipts System

During our audit fieldwork we noted that the Village does not use prenumbered cash receipts to record cash received. We recommend that the Village obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Village.

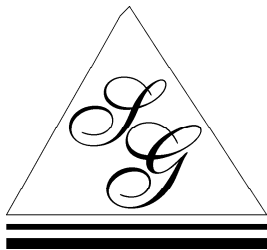
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by

Members of the Village Council
Village of Sterling
September 17, 2004
Page Two

employees in the normal course of performing their assigned functions. Our consideration of the control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 17, 2004

Members of the Village Council
Village of Sterling
Arenac County, Michigan

Dear Council Members:

We have audited the general purpose financial statements of the Village of Sterling for the year ended March 31, 2004, and have issued our report thereon dated September 17, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 9, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Village of Sterling's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Village of Sterling's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Sterling are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village of Sterling during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Sterling's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Sterling, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Sterling's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Sterling's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

Cash Receipts System

During our audit fieldwork we noted that the Village does not use prenumbered cash receipts to record cash received. We recommend that the Village obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Village.

Budget Control

The Village incurred expenditures in the General Fund and the Special Revenue Funds in excess of appropriated amounts. We recommend that the Village Council review budgets on a periodic basis and amend as needed to be in compliance with the Uniform Budgeting and Accounting Act.

GASB 34 Implementation

New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a transmittal letter describing management's analysis of the financial statements and current financial condition of the governmental unit.
2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.

4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).
5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.
6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the Village of Sterling will need to implement these changes by the year ended March 31, 2005.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified" independent auditor's opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the Village of Sterling and to assist in their implementation.

This information is intended solely for the use of management, Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.